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# **RETIREMENT POLICIES AND THE LIFE CYCLE: CURRENT TRENDS AND FUTURE PROSPECTS**

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## **Abstract**

During the 20<sup>th</sup> century, pensions in developed countries were generally payable from a statutory retirement age which provided a norm for retirement behaviour and a threshold dividing older from younger age groups. Governments, by setting fixed starting dates for work and retirement, created a standardised life cycle with clearly delineated and uniform boundaries between education, work and retirement stages. Over the last thirty years or so, retirement behaviour has diverged from official norms and moved towards earlier retirement, though pressures for later retirement are now increasing as concerns over pension finance provoke calls for older workers to remain economically active. Weaker retirement norms have prompted speculation that working practices may be evolving from a Fordist life cycle with fixed stages to post-Fordist life courses with fluid and variable personal experiences. This paper assesses current trends, asking whether they do indicate major changes in the life cycle, and considers the flexibility of retirement, paying particular attention to the influence of government and employers. Several ways in which retirement could develop are identified, but few of them remove the constraints on retirees: truly flexible retirement will not occur spontaneously and will require explicit policies to safeguard retirement choices.

**Keywords:** flexibility, life cycle, older workers, post-Fordism, retirement

## 1. Introduction

Formal retirement from work at a given age became widespread only in the mid-20<sup>th</sup> century, when public pension schemes were introduced on a large scale in developed countries. Pensions were subject to a retirement condition and payable from a statutory retirement age, which became the norm for retirement behaviour and the threshold marking the start of old age. For the first time, an official boundary separated younger from older age groups and confirmed the inactive status of older people. Retirement, defined by a fixed starting date, became a stage in a standardised life cycle with uniform progression from education to work to retirement. Alongside the school-leaving age, the retirement age was one of the two main transitions determining the lifetime experience of the average person. As formal retirement burgeoned, individual life courses in each country converged on a common pattern. The timing of life-cycle transitions was not the same everywhere, because of international differences in school-leaving and retirement ages, but a similar periodic life cycle could be observed in almost all developed countries.

Recent retirement behaviour has shown signs of drifting away from previous norms: early exit from work has spread widely, working patterns have fragmented, average unemployment rates have increased, and the chances of staying in the same job for life have declined. Former assumptions about a regular, stable career path ending at a known retirement date no longer seem reliable. Many people have withdrawn from the labour force before they were scheduled to do so, the period of actual or de facto retirement has expanded, and the role of statutory retirement ages has diminished. Retirement is now less predictable, blurring the boundary between a working stage of the life cycle and a retirement stage, and fewer people adhere to a fixed programme of lifetime events. Diverse behaviour makes it harder to trace distinct periods of education, work and retirement. The standardised life cycle may be dissolving, to be replaced by a multitude of individual, personalised life courses.

Long-run trends in the 20<sup>th</sup> century were towards earlier retirement, with average retirement ages initially above the statutory age, then in line with it, and eventually below it. Temporary labour shortages led to calls for delayed retirement but these had little impact on the early retirement trend. To leave work earlier, readjust the work/leisure balance and enjoy more leisure time seemed an inevitable consequence of rising prosperity. Since the 1980s, however, fears over

pension finance have aroused demands for later retirement and longer working lives, to the extent that previous trends may be halted and reversed. As well as showing greater diversity, retirement in the 21<sup>st</sup> century may see the end of the long-term fall in retirement ages and increased economic activity by older workers.

Orthodox economics makes frequent use of life-cycle modelling but seldom addresses the social origins of the life cycle: it follows neoclassical economic theory by assuming optimum intertemporal planning and stressing individual retirement choices above all else. Social norms appear as external constraints on individual decisions and are not related to other institutions or placed within a historical setting. To consider how the life cycle emerged in the 20<sup>th</sup> century and how it may evolve in the 21<sup>st</sup>, one must adopt a social and institutional perspective. The present paper draws from heterodox economics, social gerontology and sociology to assess how the later stages of the life cycle are changing and what this implies for retirement. The next two sections discuss the concept of a life cycle and its relevance for retirement behaviour; later sections examine its apparent breakdown and evaluate future prospects.

## **2. The Life Cycle as a Concept**

Ever since ancient times, many authors have written about ageing and reflected upon the stages of a typical human life (de Beauvoir, 1977, Chapter 3). Such writings can be construed as implicitly adopting a life-cycle approach, yet they offer no formal account of the life cycle and make little attempt at theorising. Formal life-cycle concepts date back only as far as Darwinism and the evolutionary ideas of the late 19<sup>th</sup> century (O’Rand & Krecker, 1990). The theory of natural selection requires population thinking in which members of a population have finite life spans and are subject to continuous replacement by new members. A life cycle starting with birth or conception, ending with death, and allowing for growth and reproduction in between, is a vital ingredient in evolutionary arguments whether applied to human beings or any other organisms. Dissemination of these arguments encouraged life-cycle models in many natural and social sciences, including biology, psychology, anthropology, sociology and economics.

The classic concept of a life cycle has three elements: phasing, maturation and reproduction. First, for an entity to possess a life cycle it must pass through a sequence of phases or stages which take a cyclic form. The phases should be universal and always follow the same sequence, so that they are common to the whole population. Second, a life cycle entails an irreversible process of maturation or development. The normal pattern for a living organism is to have growth at the beginning of the life cycle, cessation of growth once maturity is reached, and then physical decline culminating in death. Third, a life cycle should incorporate reproduction in at least one of its stages, in order that new generations are created to replace old ones. Without reproduction, life cycles would not be sustainable over the long term and evolution by natural selection would not occur. Although life-cycle models should logically have all three elements, they often overlook reproduction or leave it implicit: the theory then rests upon a sequence of stages and a growth process but does not refer to reproduction or make evolutionary arguments. Phasing and maturation are regarded as sufficient, for most purposes, to identify a life cycle.

The earliest formal life-cycle models relied on biological analogies and were applied within natural rather than social sciences. Living creatures share common experiences that can be condensed into a life-cycle framework: birth or conception as a starting point, a phase of growth and development, attainment of maturity (at which time reproduction takes place), a phase of gradual decline and senescence, and finally death as an end point. This course of events, clearly not the product of human design, is portrayed as natural, inevitable and applicable at all times and places. The human life cycle embodies biological ageing, which is beyond our control, but individual experiences do not follow a rigid, mechanical schedule and display extensive variations. While ageing does have a preordained, programmatic component, it also has unprogrammed features that should be recognised in a full account of ageing and its physical consequences (Bond, Briggs & Coleman, 1993; Jackson, 2001). For any particular person, the rate of growth and then decline during the life cycle depends not only on genetics but on the physical and social environment. More favourable external conditions permit faster growth during the development phases, greater physical and mental capacities at maturity, slower decline in the later stages of the life cycle, and higher life expectancy. Even if one adopts a biological view, the life cycle leaves space for variations due to other factors.

In the early 20<sup>th</sup> century, familial and social versions of life-cycle modelling began to appear. Priority is usually accredited to Seebohm Rowntree, who mapped out a life cycle as part of his pioneering research on poverty (Rowntree, 1901, Chapter 5; Glennerster, 1995). He argued that

the typical life course depended on a mixture of biological, institutional and familial considerations, but he emphasised the raising of a family – his model, unlike later ones, retained a link with reproduction. Earnings, in Rowntree's view, show limited variability over the life course, whereas expenditures are distorted by the high spending incurred in child care during the middle years. The upshot is a twin-peaked pattern of net saving caused by the temporary dissaving required to finance the upbringing of children. Familial circumstances give rise to financial hardship at the middle of the life course because needs are high relative to earnings. Another period of hardship is old age, when cessation of work creates a fall in earnings unmatched by any fall in spending (especially as health care needs may be greater). The driving forces of the life cycle are biological ageing and reproduction, which are common to all human societies, and so the life cycle can lay claim to universality, a property it shares with Rowntree's concept of absolute poverty. Official retirement ages had not yet come to the fore when he undertook his initial social research and played little part in his account of the life cycle.

By the late 20<sup>th</sup> century, social versions of the life cycle had moved from a familial to an institutional perspective. The spread of pensions and retirement, associated with post-war welfare states, promoted retirement behaviour at a single age. Institutions now defined a typical life course by a three-stage sequence of education-work-retirement, with the school-leaving age and the statutory retirement age as the fixed thresholds. For the first time, life-cycle stages were built into public policies and fostered uniformity. Academics came to describe this as the 'social construction of old age', such that institutions of retirement, welfare provision and social care set the boundaries of old age and divided an elderly section of the population from the rest (Phillipson, 1982, 1998; Fry, 1996; Estes, 2001). Old age was characterised by economic inactivity, which led to structured dependency on public pensions, social security benefits and other welfare measures (Walker, 1980; Townsend, 1981). Since a life cycle was written into public institutions, any academic work that acknowledged these institutions would be adopting (implicitly or otherwise) a life-cycle stance. Arguments about the social construction of old age have come largely from outside the economics discipline, though they have affinities with institutionalism and other heterodox approaches – retirement policies provide a clear instance of how institutions shape economic behaviour (Wolozin, 1990; Jackson, 1994; Dugger, 1999). Social constructionist theories, despite their non-economic heritage, mesh well with heterodox economics.

Orthodox economics too has made extensive use of life-cycle models, but in a distinctive type founded on neoclassical principles of instrumental rationality. Attention focuses on the

intertemporal optimisation decision made by a rational agent over a lifetime planning horizon, subject to constraints imposed by financial endowments and earning opportunities. Such models move away from the original basis of the life-cycle approach in evolutionary biology and say little about the physical processes of ageing. Institutions enter the analysis as constraints upon planning decisions but play a secondary role to the individual agents and are not portrayed as constructing the life cycle or moulding preferences. The chief economic aspect of the life cycle is seen as being the individual consumption/saving decision, which allows gains in welfare or utility through smoothing out of consumption patterns to compensate for unevenness of income flows. Early models appeared in the 1920s and 1930s with the work of Ramsey and Fisher on optimum saving, and the life-cycle approach became fully realised in the 1950s and 1960s with attempts to explain aggregate consumption and saving behaviour (Modigliani & Brumberg, 1955). A central prediction of simple, well-behaved models was that rational individuals would seek to stabilise consumption, so that it is disengaged from income and much less variable. Empirical studies, by contrast, suggested that consumption and income track each other closely, and it soon became apparent that simple optimising behaviour could not reliably depict the typical life cycle (Thurow, 1969). The remedy has been to add various institutional and other constraints to the model which limit an individual's ability to make optimum lifetime choices. In the quest for more realistic life-cycle approaches, neoclassical economists have had to invoke a greater number of external institutional details.

From the 1960s the scope of orthodox life-cycle modelling was expanded greatly through the human capital research programme and its applications in areas such as labour economics, the economics of education and health economics (Browning & Crossley, 2001). The intertemporal optimisation framework remained intact but was augmented by variable labour supply, investments in education and training, changing familial circumstances, bequests, and so forth. Of particular relevance to retirement behaviour is the modelling of long-term labour supply. In a neoclassical life-cycle model that permits a free choice of working time (dynamic labour supply), a rational individual with well-behaved intertemporal preferences would normally choose a smooth retirement path of gradually reduced working hours (Ghez & Becker, 1975). As with consumption/saving patterns, the observed behaviour of many workers does not conform to this theoretical ideal: working hours often vary little during a person's full-time working career until an abrupt cessation of work upon retirement. To fit actual retirement behaviour into the life-cycle framework requires external institutional constraints such as fixed working hours, statutory retirement ages, retirement conditions on pensions, and mandatory retirement imposed by

employers. Room for individual choice is greatly reduced, shifting from continuously variable labour supply to a narrow menu of discrete choices between work and retirement. Neoclassical approaches can thus be reconciled with an institutionalised life cycle, even though the institutional content has to be appended as exogenous, ad hoc imperfections.

The biological analogies behind life-cycle approaches became fainter during the 20<sup>th</sup> century, and recent applications give greater weight to institutions. While human biology remains crucial, the everyday experience of ageing depends more directly on the institutional setting and cultural attitudes towards older people. Life-cycle arguments reflect this by highlighting the formal thresholds marking out the life course (notably the official retirement age) in preference to the physical effects of old age. What matters most is phasing, as against maturation or reproduction. To understand the life cycle, one has to appreciate its socially determined character and pay heed to the institutions that define and regulate our passage through life. Retirement is central here, and any future transformations of the life cycle must stem from changes in retirement practices.

### **3. Origins of Standardised Retirement**

In pre-capitalist societies and in early capitalism the typical life course was unstructured. Few people underwent formal education and many children were working, so the education-work transition was hazy. Wage labour with fixed working hours was itself an artefact of capitalism and absent from the pre-capitalist world, where neither working time nor the life course were monitored and regulated (Kohli, 1986; Vincent, 2003, Chapter 1). The same goes for retirement, which depends on a prior period of clearly defined full-time work. High death rates in pre-industrial societies meant that only a small fraction of each birth cohort reached old age and stopped working. Low incomes ensured that few could save and dissave; institutionalised saving and retirement pensions did not yet exist. Working careers followed an unregulated path without normalised thresholds or stages.



People in all societies face biological ageing and, as they pass from childhood to adulthood to old age, must adapt their work habits and lifestyle. Ageing occurs continuously, without fixed borderlines: older people must work less intensively when their physical capabilities decline, but this adjustment need not be sudden and abrupt. In pre-capitalist societies, older workers reduced their work gradually to suit their capabilities and varied the timing and speed of the adjustment; no common retirement date applied, nor were the retired labelled as a separate group. The life course was a personal affair determined by human biology and local circumstances.

Age thresholds – the school-leaving age and retirement age – were introduced in most developed countries during the late 19<sup>th</sup> or early 20<sup>th</sup> century. Formal retirement entered the scene among certain large employers before it spread to the whole working population (Graebner, 1980; Hannah, 1986; Midwinter, 1997, Part I; Costa, 1998). Policies to foster withdrawal from work at fixed ages were motivated by employers' desire to influence the size and age composition of their labour forces. The advent of formal retirement ages coincided with the emergence of scientific management (Taylorism) founded upon strict separation of managers from workers, creating the specialised management familiar in modern business. The task of managers was to plan production optimally so as to maximise productivity and minimise waste and organisational slack. Managerial planning and control included working time as well as working procedures and, when applied on a lifetime basis, required a policy for cessation of work (Graebner, 1980, Chapter 2). The logic of scientific management suggested the case for a formal, standardised retirement age that would assist manpower planning by generating an orderly, controlled and predictable end to the employee's working life.

Since the retired would have to receive a pension, old-age pensions were bound up with retirement. At first, retirement programmes were internal to large public and private organisations; employees elsewhere had different retirement practices, while many were excluded from retirement. Standardised retirement on a national scale came about only after the widespread introduction of public retirement pensions. Governments, though they seldom adopted a retirement policy as such, imposed an age threshold and a retirement condition on the receipt of public pensions. To claim a public pension one had to be both above the age threshold and fully retired from work – there were few possibilities for combining part-time work with a pension. Workers were forced into deciding between full-time work and retirement, with the age threshold for public pensions as the earliest date at which the choice could be exercised. Many chose to defer their modest state pension and work beyond the retirement age. As retirement

flourished, the average age of withdrawal from work fell; the trend accelerated in the 1930s depression, when older workers were entreated to retire earlier and relieve the competition for jobs (Laczko & Phillipson, 1991, Chapter 2). From the 1950s only a minority of workers in developed countries exceeded the statutory retirement age, which became the norm for retirement behaviour.

The introduction of public retirement pensions raised awkward questions about how they should be financed. Private pensions had been perceived as a reward for long service and were financed on insurance principles, such that pension contributions were related to wages and paid into a fund. This was portrayed as natural and desirable, given that it imitated virtuous saving activities and provided pensions only to those who apparently deserved them. Public pensions could be organised as an insurance scheme but could alternatively be financed by taxes or other compulsory contributions, which had immediate practical advantages in being rapid to implement and open to low-income households with limited saving capacity. Most public pensions were ultimately to be financed on pay-as-you-go (PAYG) principles, though their nature as a cross-sectional transfer mechanism was often concealed. Debates among orthodox economists led to the ‘insurance fiction’, whereby PAYG was construed as an intergenerational insurance scheme that links contributions and benefits in a manner similar to funding (Cesaratto, 2002). PAYG pensions frequently adopted the terminology of a national insurance system basing pensions on past wages, even though no fund of financial assets was accumulated and pensions were financed from public revenues. The insurance fiction fulfilled the pragmatic purpose of making the new redistributive measures politically acceptable, but at the same time it clouded the true character of PAYG finance. Opting for PAYG implies a shift of emphasis from individualistic to collective arrangements and from life-cycle saving to cross-sectional income distribution. Orthodox economists never quite came to terms with the shift and continued to interpret pensions and retirement in the language of private insurance.

Firms running their own pension schemes could still set retirement ages that differed from the statutory one but mostly fell in line with the public pension system. The private, regulatory function of retirement became merged with the public, welfare function of redistributive PAYG pensions. Formal retirement had initially been justified as a tool that assisted the efficient planning of work within large organisations; it provided a decisive but non-punitive way of removing workers reaching the end of their productive lives. As the 20<sup>th</sup> century progressed, other arguments saw retirement in a different light as benefiting workers rather than employers,

because it offered guaranteed leisure in old age supported by generous public and private pensions. Once retirement became standardised and the bond between retirement and public pensions was secured, the perception of retirement moved away from its regulatory function towards its welfare function. The idea of retirement as a welfare measure was, nevertheless, an ex post rationalisation of something that had been advocated as a planning device and only later became absorbed into the wider notion of the welfare state.

Retiring at a fixed age was not, by and large, mandatory. Capitalist labour markets are voluntary in so far that employees are nominally free to withdraw from the labour force. People with sufficient private means can retire at any age just by resigning and living on their savings; the privileged few with huge unearned incomes can choose never to work. The majority do not have this option and, in order to subsist, must work full-time to support themselves and rely on pensions in their old age. Despite the semblance of voluntariness, economic reality compels the average employee to work until a pension is available. Retirement practices were standardised through state pensions paid from a statutory retirement age, as against a mandatory retirement rule. Some employers did impose mandatory retirement as a feature of their own employment contracts, but governments never organised this centrally. No rule dictated that everyone had to retire at the statutory age, yet the economic context channelled most people into doing so.

#### **4. The End of Standardised Retirement?**

The heyday of standardised retirement, from the 1950s to the 1970s, spanned the post-war era of recovery and expansion, when growth rates stood at historically high levels, employment was readily available, and inflation rates were low. Many countries, keen to start afresh after their wartime experiences, introduced fundamental reforms of social policy with the expressed intent to establish new welfare states. Among the reforms was consolidation of public retirement pensions financed on PAYG principles and organised around a statutory retirement age. Governments were embracing, at least implicitly, cross-sectional income redistribution through pensions and other welfare measures. It became politically acceptable to speak not just of poverty relief but of ambitious and generalised redistributive policy which had pensions as a prime

component. Coupled with welfare reforms came commitment to activist Keynesian macroeconomic policies aimed at boosting aggregate demand and – in principle if not always in practice – attaining full employment. Other traits of the post-war era were the spread of mass production and associated work methods (which had first appeared earlier in the 20<sup>th</sup> century), the growing importance of mass consumption with standardised goods and services, and various institutional developments such as large-scale trade unionism, corporatist wage bargaining and nationalisation of public utilities.

Theorists in the Regulation School tradition have devoted much effort to studying the post-war period, which they term the Fordist era (Amin, 1994; Jessop, 1994; Boyer & Saillard, 2002). From the viewpoint of Regulation theory, public welfare measures, including state pensions and standardised retirement, provided the social and political context (the 'mode of regulation') that facilitated rapid economic growth and capital accumulation from the 1940s onwards. Technical and industrial changes may have been pivotal, but long-term growth would have been impossible without a suitable institutional setting. Keynesian macroeconomic policies likewise assisted growth by smoothing out economic cycles and sustaining aggregate demand, while also bolstering standardised retirement by dampening cyclical pressures for earlier or later withdrawal from work. Highly regulated working practices created what has been termed the Fordist life cycle divided into education, work and retirement stages (Myles, 1990). Centralised planning of the life cycle matched the broader tendencies towards centralisation and uniformity observed in mass production, mass consumption, and generous public welfare provision. Standardised retirement may therefore belong to the Fordist phase of economic development which peaked in the third quarter of the 20<sup>th</sup> century and now seems to be receding.

In referring to a Fordist life cycle, one should be careful to allow for its origins and character. Retirement became standardised only after the introduction of PAYG public pensions revolving around a statutory retirement age. The age threshold acted as the borderline for a cross-sectional redistribution scheme but was arbitrarily defined and had little to do with the physical ageing of an individual. By contrast with arrangements within private firms, public pensions were seldom regarded as a response to the low productivity of older workers and the need to replace them. Improved health and longevity during the 20<sup>th</sup> century have made it increasingly clear that most people are capable of working productively well beyond the statutory retirement age, which has no real significance for productive capacities. The result is a 'life-cycle fiction' akin to the insurance fiction, whereby cross-sectional transfers acquire a fabricated image in terms of an

individual life course. For each individual, the retirement age does determine lifetime experiences, but the Fordist life cycle is socially constructed and has no basis in individual behaviour or biological ageing.

Experience since the 1970s has seen an economic downturn and a retreat from Fordist arrangements as new technologies have surfaced (microelectronics; computing; information technology) and industries have swung away from mass production towards smaller scale, more flexible production methods. Such post-Fordist trends may ultimately dislodge Fordist institutions and bring a new institutional context of decentralisation and diversity. Among the possible social changes are greater variation in career histories, withering of the welfare state, reduced reliance on tax-financed state pensions, and deregulation of retirement. If official age thresholds vanish, then the outcome could be 'dechronologisation', in other words the abandonment of a preset chronology for the life course (Kohli, 1986; Guillemard, 1989; Gaullier, 1992; Phillipson, 1998, Part II). Retirement could start earlier or later, take place gradually and vary with the characteristics of the retirees. A postmodern or post-Fordist life course, without the standardisation observed during the Fordist era, would replace the Fordist life cycle (Featherstone & Hepworth, 1989; Myles, 1993; Hockey & James, 2003, Chapter 6; Mayer, 2004; Gilleard & Higgs, 2005, Chapter 2). People would change jobs more frequently, with re-training if needed, and no longer abide by fixed boundaries between education, work and retirement. The orderly Fordist sequence of education-work-retirement would for many people be disrupted and replaced by slower entry into full-time work, shorter job tenures, major career switches, a return to full-time education in later life, and a less predictable pattern of lifetime transitions. Social consequences of these developments would be increased variability of household composition, causing a shift away from the traditional married couple with children, and a reduction in fertility levels (Mayer, 2004). Post-Fordism would raise the rate of female labour force participation and lessen gender differences in employment histories: fewer women would dedicate themselves wholly to unpaid domestic work and the raising of children. In an unstructured life course, retirement would be both flexible, allowing choices over its timing, and gradual, allowing choices over its speed or smoothness (Parker, 1982, Chapter 8). Post-Fordism would have an individualistic flavour, for people could ideally pursue their own lifetime projects or, if this proved unfeasible, at least follow a distinctive, personalised career path subject to material circumstances, social background and external events.

As general concepts, Fordism and post-Fordism are open to doubt. Critics have queried the existence of post-Fordism and the 'new economy', together with the causal role of technology in propelling them, and cast doubt on any neat divisions between Fordist and post-Fordist eras (Sayer, 1989; Webster, 2002, Chapter 4; Henwood, 2003). Announcements of a post-Fordist era may be premature and, if it does happen, its peak may be decades into the future: on a long-wave account of economic history, the post-Fordist long wave would be expected to cover the first half of the 21<sup>st</sup> century (Tylecote, 1991). We cannot know for sure whether a post-Fordist phase of economic development will emerge, though trends in that direction are discernible. Post-Fordism can also be given varied normative assessments. Seen in a positive light, it may remove long-standing social constraints, put an end to age discrimination, enhance opportunities for education in later life, permit frequent career changes, allow for flexible and gradual retirement, and offer people greater control over their own lifetime experiences. The appearance of post-Fordist life courses should, from this angle, be welcomed for their contribution to personal freedom and self-expression. On the negative side, post-Fordism may bring increased uncertainty for the average worker, greater job insecurity, reduced access to welfare benefits and public pensions, enforced rather than voluntary job changes, risks of downward social mobility, fragmentation of familial and other personal relations, and loss of social cohesion and identity. Instead of being something new, the changes labelled as post-Fordism may just be a throwback to a deregulated, pre-Fordist brand of capitalism engendered by recent neo-liberal policies. The waning of the old retirement practices need not evolve into total flexibility allowing employees a free choice over the speed and timing of their withdrawal from work. Between the extremes of standardised and flexible retirement come many intermediate cases, some of which proffer little choice for the retiree.

## **5. Current Trends**

Is there any evidence for post-Fordist life courses and transformed retirement behaviour? Key indicators here would be movements in the average timing of retirement away from the statutory age, increased variability and smoothness of retirement paths, and a higher degree of choice available to retirees. Over the last few decades the most prominent changes have occurred in the

timing of retirement, which has not adhered closely to official norms. Average retirement ages moved below statutory ones during the 1970s, when many employees in developed countries made an early exit from the labour force before they were scheduled to retire (OECD, 2006, Chapter 3). This unofficial early retirement took place by several routes, including occupational pensions, disability benefits, unemployment and public pre-retirement schemes (Laczko & Phillipson, 1991, Chapter 4). A major stimulus for change was high unemployment, since earlier exit from work could release jobs for younger workers and convert unemployment into retirement: a fixed retirement age lost some of its appeal once the Keynesian promise of full employment had broken down. Trends towards earlier retirement concealed wide variations in experience among individual retirees, some of whom could choose to retire early with generous occupational pensions, whereas others had to endure spells of part-time work or unemployment-cum-retirement on low benefit levels (Guillemard & Rein, 1993; Contini & Leombruni, 2006). Pension and social security measures often generated incentives for workers to retire earlier, so that 'voluntary' decisions were susceptible to outside influences. The extent and manner of early exit from employment showed significant international variations that merit further discussion.

In drawing international comparisons, it is helpful to distinguish between countries with high and low levels of early exit. From the 1970s to the 1990s, high early exit countries saw a rapid fall in male labour force participation rates for the 60-64 age group to reach levels well below 50%: examples are France, Germany and the Netherlands (Rein & Jacobs, 1993). Many workers in these countries were switching from full-time work to retirement before reaching the official retirement age marked out by public pension programmes. Earlier retirement was generally supported by governments which in some cases went as far as to set up formal pre-retirement schemes with associated benefit payments (Kohli et al., 1991). Public support also came from disability or unemployment benefits, and the average worker had a range of early exit options. Private employers too sanctioned earlier retirement by permitting access to occupational pensions at ages lower than those previously scheduled. Taken together, the public and private measures gave workers an extensive menu of pathways to early exit, most of which were accompanied by generous pensions or benefits. As early exit was relatively attractive, few workers in these countries elected to seek gradual retirement or part-time work in later life. Although the trends may seem to corroborate the post-Fordist story, they hailed from a series of formal, centralised measures implemented by the State and large corporate employers. The institutional background

to early exit had a decidedly Fordist complexion, and one should be cautious about viewing it as evidence of post-Fordism.

Low early exit countries saw similar but less dramatic retirement trends, such that male labour force participation rates in the 60-64 age group declined steadily from the 1970s to the 1990s but remained above 50%: examples are the US, UK and Japan (Rein & Jacobs, 1993). Retirement varied greatly among these countries, but on the whole early exit was less institutionalised than in high early exit countries and given less concerted support from government. It was rarer for workers to make a complete switch to early retirement, and they often passed through a period of part-time work before retiring fully. In the US, for instance, public retirement pensions were lower and less readily available than their equivalents in European welfare systems. The upshot was a greater disparity between employees with adequate private pensions, who could take well-funded early retirement, and those without, who faced financial pressure to stay at work and, in some cases, switch from a career job to a bridge job with shorter working hours before ceasing work entirely. Retirement modes were more diverse than in high early exit countries and subject to stronger incentives to keep working longer. Similar forces have prevailed in the UK and Japan, both of which have had public retirement pensions financed at lower levels than in Continental Europe. Low early exit countries may appear to display post-Fordist traits in their small welfare states, diverse retirement behaviour and higher incidence of gradual retirement and part-time work. These traits were visible in the Fordist era, however, and reflect local institutional variations rather than any universal trend towards post-Fordism.

Other, longer-term influences have also been present. To retire earlier was supposedly a reward of economic prosperity: when a society got richer it could reduce its working hours, compress its average working life, and have more leisure. This is borne out by 20<sup>th</sup> century experience, as average retirement ages converged downwards on the statutory retirement age and then fell below it through early exit. Economic growth was expected to evoke not only greater material wealth but ever increasing leisure time. Various commentators have argued that retirement should be subdivided into a period of able-bodied, active retirement (the 'third age') followed by a period of genuine physical decline in advanced old age (the 'fourth age') (Laslett, 1989; Young & Schuller, 1991; Gilleard & Higgs, 2000, Chapter 3). Improved health and prosperity would allegedly yield a continuous expansion of the third age. Forecasts of this kind now seem less self-evident than they once did, and paid work has resumed its claim on the time



and energy of older people. A trend towards early active retirement can no longer be taken for granted.

Within the last fifteen years or so, the long-run passage to earlier retirement has faltered. Retirement ages are no longer falling so consistently and seem to have levelled off or started to rise, bringing the possibility of a turning point in retirement behaviour. Empirical studies based on longitudinal data have yet to confirm such a turning point: some studies suggest that earlier retirement continued well into the 1990s (Gendell, 1998, 2001); others provide tentative evidence of later retirement trends beginning in the mid-1990s (Purcell, 2000; OECD, 2001; Scherer, 2001; Zaidi, Makovec & Fuchs, 2006). It is too soon to draw firm conclusions about a watershed in retirement, but there are signs that the long 20<sup>th</sup> century trend towards earlier retirement may have ended. As average retirement ages are already below statutory ones, a later retirement trend would bring them closer together and narrow the gap that opened up in the late 20<sup>th</sup> century. This outcome is also uncertain, because the pension/retirement ages in many OECD countries, after decades of stability, are moving upwards and seem set to establish new retirement norms (Turner, 2007). Higher statutory retirement ages should confirm and strengthen any tendency towards delayed retirement, as well as allowing people to retire chronologically later but ‘early’ with respect to the official retirement age. Consequently, we should expect later retirement in the 21<sup>st</sup> century, even though the strength and generality of the new trend still remains unclear.

The engine behind these changes has been pension finance. With large generations of workers due to retire in the early 21<sup>st</sup> century, PAYG pensions can maintain a balanced budget only if taxes rise. Governments, reluctant to impose higher taxes, have been seeking other ways of readjusting pension schemes, and a relatively painless adjustment is to hold pensions constant but encourage or force people to retire later. Retirement policy has jumped from early-exit strategies urging older workers to retire earlier and make room for the young to late-exit strategies urging them to remain in employment and prolong their working lives (Auer & Fortuny, 2000; De Vroom & Guillemard, 2002; Spiezia, 2002; OECD, 2002, 2006; Maltby et al., 2004). Late-exit strategies will, if successful, block and reverse the previous retirement trend. Regardless of individual attitudes to the work/leisure balance, the collective interest is viewed as justifying a higher average retirement age. New policy imperatives geared to tax and public finance concerns have replaced former ones geared to offsetting unemployment and securing expanded retirement and the growth of the third age.

Population ageing lies at the heart of the rationale for delayed retirement. All developed countries have experienced rising average ages and higher proportions of older people during the 20<sup>th</sup> century, a trend which is linked with the demographic transition and expected to continue well into the 21<sup>st</sup> century. Generous public pensions introduced in the Fordist period have posed difficult policy adjustments to accommodate population ageing, with an unpalatable choice of higher taxes, reduced benefits or delayed retirement. Fears have been widely expressed about intergenerational conflicts and a breach of the implicit contracts that underlie pension and welfare programmes (Walker, 1990; Johnson & Falkingham, 1992, Chapter 2; Jackson, 1998, Chapter 2). Among the potential policy responses, later retirement seems an attractive option, given that life expectancies are increasing and most people would still be left with a substantial retirement period. The long-run character of population ageing gives plenty of time for adjustments, yet the policy issues have often been dramatised in popular discussion as an ageing crisis, as if the difficulties had arisen suddenly and unpredictably. Talk of an ageing crisis dates largely from the 1980s onwards and coincides with the drift towards *laissez-faire* policies, privatisation and reduced public expenditure – demographic change appears to offer an objective, uncontroversial case for curtailing the public sector. Such crisis arguments should be treated with due caution and scepticism. Population ageing had begun in the early 20<sup>th</sup> century and persisted through the rise and heyday of Fordism but was perceived as a crisis only when the political climate had swung towards neo-liberalism (Jackson, 2006). The policy issues raised by population ageing, though genuine enough, have fed into wider economic debates about the welfare state and should be viewed within that context.

Beside the changes in its timing, retirement has also apparently become more diverse and flexible. Some European countries have allowed partial or gradual retirement before or after the official retirement age: Sweden was first to do this in the 1970s, followed by others such as Germany, Austria, France and Italy (Delsen & Reday-Mulvey, 1996; Phillipson, 1998, Chapter 5). Contrary to appearances, the chief goal of these policies has not been to promote flexibility but to call forth later retirement in a late exit strategy. Flexible retirement will, it is hoped, induce workers to continue part-time work beyond the normal retirement ages. Policy-makers are eager for retirees to exercise their choices in an upward direction and slow down or reverse the early-exit trend. At the same time as implementing gradual retirement schemes, many of these same countries are raising their statutory retirement ages so as to delay retirement. Enhanced individual choice has been coupled with attempts to guide that choice towards later retirement and part-time work among older age groups.

Another factor behind flexible retirement has been the desire to remove age discrimination in employment: a society without age barriers should, in principle, be conducive to work and retirement options for older people. The late 20<sup>th</sup> century saw increasing recognition of ageism and efforts to counteract it (Bytheway, 1995, Part I; Duncan, 2001). One approach has been to encourage employers to take a positive attitude towards older workers and show greater willingness to retain or recruit them. Some countries, such as the US, have gone further and adopted anti-discriminatory legislation that bans employers from setting age limits in job recruitment or imposing mandatory retirement on grounds of age (Macnicol, 2004). By preventing overt age discrimination, this should weaken age boundaries and sanction flexibility around retirement and employment norms. Legislation cannot alter discriminatory attitudes, however, and to dispel all age biases would demand a wholesale cultural transformation. Many employers, while not overtly discriminating against older workers, have adhered to employment practices that place them at a disadvantage (Taylor & Walker, 1998). Giving them genuine work/retirement options is not just a question of lifting age barriers and depends on other things, such as intergenerational relations within the workplace and the costs of early exit to the employer (Duncan, 2003; Roberts, 2006). Workplace cultures stressing novelty, dynamism and flexibility put a low value on the attributes of older workers (notably their experience and loyalty) and harm their employment prospects. Unofficial age thresholds will linger long after official ones have been banned, but anti-discriminatory legislation should help to quicken the pace of cultural change.

Flexibility and diversity of retirement, despite having widespread official approval, are well short of being the general case in most countries. Empirical evidence suggests that single-date retirement still predominates in OECD countries and that the incidence of flexibility and gradualness is limited (OECD, 2000, Chapter 8; Purcell, 2000). Greater diversity would be expected to increase the spread of retirement ages, but empirical studies show little sign of any general trend in this direction (Gendell, 1998). Discussion about increased flexibility and a post-Fordist life course remains speculative, and one should beware drawing firm conclusions about the demise of work/retirement boundaries. Shifts in the average age of retirement, which do have empirical support, need not be linked with flexibility and choice over retirement behaviour. The fact that governments are raising statutory retirement ages in order to induce delayed retirement suggests that they believe the work/retirement boundary is robust and will continue for the foreseeable future. Recent policy measures have also brought a convergence of retirement ages across OECD countries and a closing of the gap between male and female

retirement ages, usually by raising the female age to the male level (Turner, 2007). These changes, if they bear upon actual retirement behaviour, should reduce the diversity of retirement rather than increase it. Claims about the dawn of a new era of flexibility are somewhat exaggerated, and empirical backing for such a hypothesis has not so far emerged.

Retirement behaviour may also be influenced by shifts in pension finance from PAYG to funding, as recommended by international economic organisations (World Bank, 1994; OECD, 2000). According to orthodox economic criteria, a transition to funding would alleviate the effects of demographic change and encourage savings and investment, but these arguments are open to criticism from a heterodox perspective (Cesaratto, 2005, Chapters 3 and 4; 2006; Pivetti, 2006). Many governments are, nonetheless, pushing for private funded pensions at the expense of public PAYG pensions. A revival of funding is at odds with ideas of post-Fordism and increased flexibility. Funded pension schemes hark back to the private origins of formal retirement and pensions, when a funded pension came at the end of a lifetime's commitment to a single firm. Amid the standard grounds for funding has always been its encouragement of loyalty and long service, with associated gains in job-specific skills and experience. In a post-Fordist world, where there are no jobs for life and people make frequent career changes, it would be harder to organise funded pensions successfully. Those who change jobs, undertake part-time work, or return to full-time education in later life risk undermining their entitlements to a funded pension. The need to accumulate pension contributions restricts options to retire early, thereby reducing the degree of choice. Ironically, the old Fordist PAYG arrangements are more flexible in allowing labour mobility and individual choice over the retirement date. Any movements to funding are liable to induce delayed retirement (in tandem with late exit strategies) and stifle true flexibility.

Current retirement trends entail ambiguities and tensions. Flexible retirement, much discussed and widely advocated, remains uncommon and has not replaced standardised, single-date retirement in any of the major developed countries. Governments have argued for flexible retirement and taken small steps towards it while trying to steer retirement choices in a particular direction; a proclaimed desire for flexibility sits uncomfortably with a wish to manipulate 'voluntary' decisions. Policies to curtail state pensions may damage people's ability to support themselves in old age, and in a privatised environment the influence of employers will loom larger. The conflicting tendencies create uncertainty about the future of retirement and open up alternative ways in which it might develop.

## 6. Future Prospects

Retirement behaviour has diversified over the last few decades, but diversity is not equivalent to choice and retirees still have limited options. Observed variations in retirement, which seem to reflect personal choice, can in fact be due to government, firms or individuals, as Table 1 illustrates. Individuals in Table 1 have three levels of choice: none, if they face a fixed and externally imposed retirement date; constrained, if they have a small menu of options or are subject to lower and upper age boundaries on retirement; and free, if they can choose their own retirement path. The structural context varies between a centralised case in which the government oversees uniform arrangements and a decentralised case in which firms have their own retirement schemes. When retirement is centralised, variations come from government regulation (if, say, a different retirement age is set for males and females) or from individual choices, constrained or unconstrained. When retirement is decentralised, firms replace the government as the prime source of structural variations. With firms at liberty to make separate arrangements, retirement practices broaden to give an intricate mixture of individual and firm-level variations.

**Table 1.** Sources of variation in retirement behaviour

		Structural context	
		Centralised	Decentralised
	None	Government	Firms
Individual choice	Constrained	Individuals & Government	Individuals & Firms
	Free (Manipulated?)	Individuals (& Government?)	Individuals (& Firms?)

A flexible retirement system would not liberate everyone from external pressures. Flexibility may be accompanied by attempts from the government or employers to sway what are ostensibly voluntary decisions. This is evident when government policies combine gradual or flexible retirement with a late exit strategy designed to raise the average retirement age. Employers too have an interest in the retirement decisions of their employees. When labour is scarce they welcome later retirement as a means of offsetting their recruitment problems; when labour is plentiful they prefer earlier retirement as a means of reducing their labour force. Even an unconstrained retirement regime (bottom row of Table 1) could be prone to manipulation from government or employers. The real extent of voluntary retirement can be difficult to decipher.

Employers have leeway for choice under post-Fordism, but this may not filter down to employees. Decentralisation carries no assurance that employees participate in decision making – on the contrary, employer power may swell as regulations are slackened. Employers' own single-date retirement arrangements could displace the centralised version: the outcome would be diversity at the behest of employers, offering no flexible retirement for the employee. Individuals would have a privatised Fordist life cycle (top right of Table 1) with the work/retirement boundary fixed by the firm at a single date for the employee but variable among firms and perhaps among employees within a firm. Truly flexible retirement for the individual would come about only if employers granted their employees a free choice of retirement modes (bottom right of Table 1) and refrained from manipulating employees' decisions.

Left to their own devices, employers cannot be relied upon to provide flexible and gradual retirement. Some might be happy to do this, but others would want to keep tighter control over the size and age composition of their labour force. Flexible retirement would take on a random aspect depending on employer attitudes, and life cycles would still be periodic but in an uncoordinated fashion: to call this dechronologised is misleading, since people continue to experience a work/retirement timetable. Rather, it is a decentralised style of Fordist retirement which augments employer influence but leaves individuals in the same position as before. Retirement choices would be available at the grace of the employer, not as a right for everyone.

A guarantee of flexible retirement, with enhanced and universal retirement options, cannot emerge spontaneously and is achievable only through government policy. Among the measures needed are flexible/gradual retirement schemes, initiatives to give employees discretion over working hours, improved education and training opportunities for older people, and promotion of

new values attuned to an active old age (Phillipson, 2002; Walker, 2002). Retirees would have to agree on retirement arrangements with their employers, but an official policy of flexibility would goad employers to cooperate, so that variable retirement options would become the norm. Employers unwilling to cooperate on a voluntary basis would be subject to coercive legislation. Flexible retirement, in a systematic rather than haphazard form, requires a retirement policy covering all employees.

Changes in pension finance could have a bearing on retirement behaviour wherever funding replaces PAYG and individuals become reliant on accumulated financial assets. Flexible retirement for everyone will be possible only if people are not unduly penalised for early retirement decisions and if movements between jobs do not jeopardise pension rights (Esping-Andersen, 2001). Post-Fordist life courses imply that people work for shorter periods in each job and make more job or career changes in a lifetime. Flexible employment could endanger flexible retirement unless rules are in place to protect pension entitlements and prevent their erosion as workers pass from job to job. Any nominal menu of retirement choices is nullified when retirees are unable to express their preferences through a lack of pension rights. In a flexible retirement system, pensions must be generous enough to furnish a proper set of options: the higher the pension level, the greater the options. Problems of pension access affect both funding and PAYG, but PAYG opens the door to redistributive transfers where necessary and increases the chances of retirement flexibility for low income groups. At present many governments seem set to overlook retirement flexibility and, in their zeal to encourage later retirement, use pension rights as a lever to force people to work longer.

Individual choice of retirement date depends not only on pension rights and formal retirement arrangements but on the availability of work for older employees. Even if a retiree has a pension and is nominally free to choose between work and retirement, the work option still rests upon decisions made by employers: nobody can work without the employer's compliance. The absence of age discrimination is important here, but also relevant is the employment level in the economy as a whole. Past experience suggests that the work prospects of older people are strongly procyclical and dwindle during a downturn in economic activity – the recession of the 1970s and 1980s, for example, caused many firms to shed their older workers and sparked off the drive towards early exit and early retirement. Government policies aiming for late exit and extended working lives are unlikely to succeed unless economic activity is high enough to sustain new cohorts of older workers. Availability of employment is a prerequisite for truly flexible

retirement, and so measures to increase flexibility and diversity of retirement should not be viewed in isolation from employment conditions. In Keynesian terms, it is essential for aggregate demand to be maintained at levels sufficient to yield employment opportunities for all age groups. Activist macroeconomic policies with full employment as a policy goal are features of Fordism and fit less neatly into the post-Fordist era of deregulation and laissez faire. In a neo-liberal climate full employment may be elusive, in which case the policy goals of flexible and later retirement would be hard to achieve.

When flexible retirement occurs on a piecemeal footing, it is apt to be unequally distributed. Low income groups frequently have no private or occupational pensions and rely heavily on state pensions bound to a statutory retirement age. Because their early exit from work derives from unemployment (actual or disguised) as against retirement, they are vulnerable to the actions of employers and have little say in their retirement behaviour. Higher income groups, on the other hand, have private pensions affording them variability around the statutory retirement age (Pampel, 1998, Chapter 3). Sheltered by internal labour markets, they are secure in their jobs and well placed to make retirement plans. Those at or near the top of a managerial hierarchy have the authority to influence their own (and other people's) pensions and retirement. The power and flexibility enjoyed by senior management is often exercised through greater constraints and reduced flexibility for workers lower down the corporate hierarchy. A widening diversity between managers and workers could hinder the chances of attaining flexible retirement for all.

How, then, will retirement develop? Much will turn upon the relative importance of the parallel but distinct trends towards flexibility and decentralisation. Table 2 identifies four alternative scenarios and sets out their implications for retirement behaviour.

Centralised inflexibility (CI), corresponding to the Fordist case, denies individual choice over retirement but entitles everyone to a given retirement period with a pension. Such arrangements, which differ from the alleged flexibility of post-Fordism, have retained their importance. Many governments are preserving the statutory retirement age and raising it in order to encourage later retirement and reduced pension expenditure. If private pensions supersede state pensions, then the role of the statutory retirement age should wane and retirement ages should diversify. Any obstacles to the public/private switch would delay this, as people without private pensions must depend on state pensions or other benefits during their retirement. In the immediate future, centralised inflexibility will persist as the retirement mode for a large part of the population.



**Table 2.** Future retirement possibilities

	Retirement pattern			
	CI	DI	CF	DF
Periodic life cycle	Yes	Yes	No	No
Diversity of retirement ages	No	Yes	Yes	Yes
Gradual retirement	No	No	Yes	Yes
Flexible retirement	No	No	Yes	Yes
Government influence	High	Low	High	Low
Employer influence	Low	High	Low	High

Decentralised inflexibility (DI) arises if retirement practices are decentralised but nothing has been done to secure flexible retirement. Employers determine retirement policy, and retirees have little or no choice; at best the retirement date is negotiable for employees with sufficient bargaining power. Life courses resemble the Fordist pattern, except that they are now structured locally by employers.

Centralised flexibility (CF) ensues when the government introduces flexible retirement as a reform of the retirement system. A flexible/gradual retirement scheme replaces single-date retirement, and all employers must go along with it. Retirement varies through individual choices

within a single scheme. Centralised regulation contrasts with post-Fordism, but flexible retirement for the individual accords with ideas of flexibility and diversity.

Decentralised flexibility (DF) denotes retirement practices decentralised to firm level but allowing flexible retirement for individuals. This could happen only if all employers without exception were glad to embrace flexibility; the tide of cultural change would have to be overwhelming. Although the DF column in Table 2 comes closest to the spirit of post-Fordism, it seems less credible than the others.

The trends towards *laissez faire*, privatisation and reduced public expenditure may end up outweighing the trends towards flexible and gradual retirement. If so, then retirement would diversify as public influence was relaxed and succeeded by employer influence. The outcome would be decentralised but offer little choice to retirees (top right of Table 1; DI case of Table 2). Conceivably, strong individual demands for flexibility backed up by bargaining with employers might yield a transition to the DF case of Table 2, but a universal switch to flexible retirement would not be straightforward and many employers would be anxious to preserve fixed, single-date retirement. At best, decentralised flexibility might emerge fitfully and arbitrarily.

Future retirement, instead of matching one of the four cases in Table 2, will probably be distributed across several of them. Privatisation and deregulation will not bring flexible retirement for everybody, and retirement conditions will stay in place for many reliant on state pensions or working for employers unwilling to tolerate retirement choices. Diversity will extend beyond the individual level to include the structural context: a source of variation will be the difference between those in flexible and restricted modes of retirement. Flexible retirement should, if anything, spread to a bigger proportion of retirees, but progress in this direction has been slow. The prime mover behind recent retirement policies has been the desire to induce later retirement and shift from early exit to late exit strategies. As a policy goal, late exit has overshadowed flexible retirement and often clashed with it, as is clear when governments raise the statutory retirement age or manipulate retirement decisions. The prolonged 20<sup>th</sup> century trend towards earlier retirement has fuelled expectations among today's working generations that are inconsistent with the thrust of current retirement policies (Schulz, 2002; Phillipson, 2004). Individuals, given a proper choice among retirement options, might prefer to retire as soon as possible, and the chronic trend towards earlier retirement could prove irreversible on a voluntary

basis. Average retirement ages may be set to increase during the 21<sup>st</sup> century but this will not, it seems, be the result of unconstrained choices by retirees.

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